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SUBJECT: SECRETARY OF COMMERCE KREPS' MEETING WITH
PRIME MINISTER DESAI

SUMMARY: SECRETARY KREPS CALLED ON PRIME MINISTER DESAI
AT BLAIR HOUSE. THE MEETING WAS CONGENIAL AND CANDID.
THE PRIME MINISTER WELCOMED SECRETARY KREPS' TENTATIVE
PLANS TO VISIT INDIA NOVEMBER 28 TO DECEMBER 1. SECRETARY
KREPS MENTIONED THE POTENTIAL OPPORTUNITIES FOR INCREASED
BILATERAL TRADE AND RAISED THE ISSUE OF INDIA'S ADVERSE
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FOREIGN INVESTMENT CLIMATE, PARTICULARLY ITS IMPACT ON THE
PHARMACEUTICAL INDUSTRY. THE PRIME MINISTER REPLIED THAT
INDIA'S POLICIES ARE FIRM AND NO FURTHER CHANGES ARE BEING
PLANNED. END SUMMARY.

1. SECRETARY KREPS CALLED ON PRIME MINISTER DESAI AT
BLAIR HOUSE JUNE 13. THE MEETING WAS SMALL AND CONGENIAL.

PARTICIPANTS ON THE INDIAN SIDE INCLUDED FOREIGN SECRETARY JAGAT SINGH MEHTA AND J.N. DIXIT, MINISTER OF COMMERCE AND SUPPLIES OF THE INDIAN EMBASSY. SECRETARY KREPS WAS ACCOMPANIED BY SENIOR DEPUTY ASSISTANT SECRETARY STANLEY J. MARCUSS AND MONROE E. ADERHOLD, COUNTRY SPECIALIST.

NEVER BEEN TO INDIA BUT TENTATIVELY PLANNED A VISIT DURING THE PERIOD NOVEMBER 28 TO DECEMBER 1. THE PRIME MINISTER WELCOMED THE ANNOUNCEMENT, SUGGESTING IT WOULD BE A GOOD TIME FOR THE VISIT SINCE PARLIAMENT WOULD BE IN SESSION AND PROVIDE AN EXCELLENT OPPORTUNITY TO SEE INDIAN DEMOCRACY IN ACTION.

3. SECRETARY KREPS MENTIONED THE INDUSTRIAL AND ECONOMIC PROGRESS WHICH HAS OCCURRED IN INDIA AND THE POTENTIAL FOR INCREASED BILATERAL TRADE. SECRETARY KREPS ALSO MENTIONED THE POTENTIAL FOR FOREIGN INVESTMENT AND EXPRESSED CONCERN ABOUT INDIA'S FOREIGN INVESTMENT POLICIES. THE PRIME MINISTER RESPONDED BY SAYING THERE SHOULD BE NO DOUBT IN THE MINDS OF FOREIGN INVESTORS CONCERNING THE PRESENT POLICIES AND NO CHANGES ARE PLANNED OR ANTICIPATED. HE ADDED THAT NEW FOREIGN INVESTMENTS WOULD NOT BE APPROVED IN SECTORS WHERE INDIA IS SELF SUFFICIENT. AMBASSADOR MEHTA SAID THAT THE PERCENTAGE OF FOREIGN EQUITY THAT WOULD BE APPROVED FOR JOINT VENTURES IS VARIABLE, BASED ON THE LEVEL OF LIMITED OFFICIAL USE

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TECHNOLOGY PROVIDED BY THE FOREIGN INVESTOR.

4. REGARDING THE POLICIES APPLICABLE TO THE PHARMACEUTICAL INDUSTRY, SECRETARY KREPS SAID THAT THE TERMS AND CONDITIONS OF THE RECENTLY ANNOUNCED DRUG POLICY HAVE CAUSED SERIOUS CONCERN FOR U.S. PHARMACEUTICAL COMPANIES. THE PRIME MINISTER RESPONDED THAT INDIA'S MAIN CONCERN WAS THE HIGH COST OF ESSENTIAL DRUGS AND THE UNFAIR COMPETITION WHICH PREVAILED BETWEEN INDIAN AND FOREIGN COMPANIES. HE ADDED THAT MORE RESEARCH AND DEVELOPMENT SHOULD TAKE PLACE IN INDIA TO AVOID ETHERAL DEPENDENCE ON FOREIGN TECHNOLOGY. THE PRIME MINISTER STATED THAT FOREIGN AND DOMESTIC PHARMACEUTICAL FIRMS WOULD RECEIVE THE SAME TREATMENT. REFERRING TO THE COMPULSORY QUANTITATIVE EXPENDITURES FOR RESEARCH AND DEVELOPMENT, SECRETARY KREPS SAID THAT U.S. FIRMS ARE ACCUSTOMED TO FREEDOM OF CHOICE IN THE ALLOCATION OF FUNDS FOR AN EXPENDITURE PATTERN. AMBASSADOR MEHTA ADDED THAT FOREIGN PHARMACEUTICAL FIRMS COULD OPERATE PROFITABLY IN THE LARGE INDIAN MARKET AND THE NEW DRUG POLICY IS CONSISTENT WITH INDIA'S DEVELOPMENT STRATEGY. THE PRIME MINISTER ASSERTED THAT FOREIGN INVESTMENTS MUST BE

MUTUALLY ADVANTAGEOUS TO THE INVESTOR AND TO INDIA. FYI.
WE ARE RELAYING THIS INFORMATION TO COMPANY HEADQUARTERS
REPRESENTATIVES WALTER WIEN OF WYETH, WILLIAM TREHARNE OF
PFIZER, AND S.C. BANTA OF VICK, WHO CALLED ON COMMERCE

AND STATE OFFICIALS MAY 31 TO EXPRESS THE CONCERN OF 11
U.S. PHARMACEUTICAL FIRMS OPERATING IN INDIA. END FYI.

5. REGARDING THE TEXTILE ISSUE, AMBASSADOR MEHTA SAID
THAT CERTAIN PROBLEMS EXISTED BUT DID NOT PURSUE THE
ISSUE. THE PRIME MINISTER EXPRESSED HIS CONCERN OVER THE
GROWING TREND OF PROTECTIONISM IN THE INDUSTRIALIZED
NATIONS. SECRETARY KREPS RESPONDED BY SAYING THAT TEXTILE
IMPORTS CAN HAVE A FAR REACHING EFFECT ON THIS LABOR
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INTENSIVE INDUSTRY AND WITHOUT RESTRICTIONS, THERE WOULD
BE CHAOS IN THE U.S. DOMESTIC MARKET.

6. WITH REFERENCE TO THE AGRICULTURAL SECTOR, THE PRIME
MINISTER SAID THAT INDIA IS APPROACHING THE CAPABILITY TO
DOUBLE FOOD PRODUCTION AND THAT INCREASING EMPHASIS WOULD
BE PLACED ON RURAL DEVELOPMENT AND AGRICULTURE. WHEN
ASKED ABOUT POSSIBLE U.S. CONTRIBUTIONS FOR DEVELOPMENT OF
THE AGRICULTURAL SECTOR, THE PRIME MINISTER REPLIED THAT
RESEARCH DIRECTED TOWARD SIMPLIFIED FARMING METHODS AND
IMPROVED SEEDS WOULD BE DESIRABLE. HE ADDED THAT LARGE
SCALE FARMING REQUIRING THE SOPHISTICATED MACHINERY HE
SAW DURING HIS RECENT VISIT TO A FARM IN NEBRASKA WAS NOT
APPLICABLE IN INDIA SINCE 60 PERCENT OF THE FARMS ARE
1 TO 2 HECTARES OR LESS AND DISPLACEMENT OF LABOR WOULD
RESULT.

7. WHEN SECRETARY KREPS MENTIONED THE HUGE
RESERVOIR OF WELL TRAINED PROFESSIONALS IN INDIA, THE
PRIME MINISTER REPLIED THAT THE BRITISH TYPE EDUCATIONAL
SYSTEM WAS ESTABLISHED IN INDIA TO SERVE BRITISH INTERESTS
AND HAS RESULTED IN MANY EDUCATED INDIANS WHO HARDLY KNOW
THEIR OWN COUNTRY. HE ADDED THAT THIS SITUATION WOULD BE
CHANGED SINCE IT MADE LITTLE SENSE TO PROVIDE TECHNICAL
TRAINING FOR PEOPLE WHEN THERE WERE NO JOBS FOR
THEM AND THE GRADUATES WERE NOT SELF-RELIANT.

8. IN A WHIMSICAL MANNER, THE PRIME MINISTER SAID HE
HAS LITTLE REGARD FOR MODERN DOCTORS AND CONSIDERS THEM
GENERALLY UNNECESSARY IF ONE BELIEVES IN GOD AND FOLLOWS
NATURE'S LAWS.

9. THE 20 MINUTE MEETING ENDED WITH A CONGENIAL EXCHANGE
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OF REMARKS AND GOODWILL WHICH PREVAILED
THROUGHOUT THE DISCUSSION. VANCE

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